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**Audit of the Financial Management
Service's Fiscal Years 2002 and 2001
Schedules of Non-Entity Assets,
Non-Entity Costs and Custodial Revenue**

OIG-03-021

November 21, 2002



Office of Inspector General

The Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 21, 2002

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR RICHARD L. GREGG, COMMISSIONER
FINANCIAL MANAGEMENT SERVICE

FROM: William H. Pugh, *William H. Pugh*
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Audit of the Financial Management Service's
Fiscal Years 2002 and 2001 Schedules of Non-
Entity Assets, Non-Entity Costs and Custodial
Revenue

I am pleased to transmit the audited Financial Management Service's (FMS) Fiscal Years (FY) 2002 and 2001 Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedules). The Schedules were audited by Clifton Gunderson LLP, an independent public accountant (IPA). The IPA issued the following reports, which are included in the attachment:

- Independent Auditor's Report;
- Independent Auditor's Report On Internal Control; and
- Independent Auditor's Report On Compliance With Laws and Regulations.

The IPA rendered an unqualified opinion on the FMS' FY 2002 and 2001 Schedules. The Independent Auditor's Report On Internal Control contained no reportable conditions. In addition, the Independent Auditor's Report On Compliance With Laws and Regulations contained no instances of noncompliance.

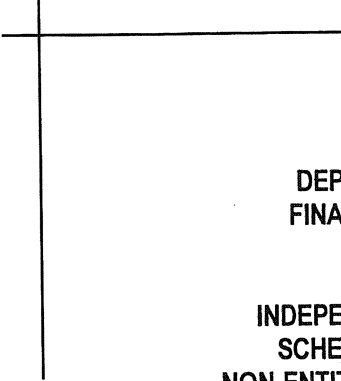
The IPA issued management letters dated November 5, 2002, discussing various issues that were identified during the audit which were not required to be included in the audit reports.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions,

Page 2

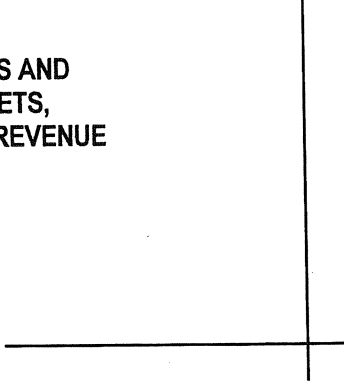
please contact me at (202) 927-5430, or a member of your staff may contact Louis C. King, Director, Financial Audits at (202) 927-5774.

Attachment



**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
Washington, DC**

**INDEPENDENT AUDITOR'S REPORTS AND
SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
September 30, 2002 and 2001**



**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE**

**INDEPENDENT AUDITOR'S REPORTS AND
SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
September 30, 2002 and 2001**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL	2
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	4
SCHEDULES OF NON-ENTITY ASSETS, NON-ENTITY COSTS AND CUSTODIAL REVENUE	5
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS, NON-ENTITY COSTS AND CUSTODIAL REVENUE	6

Independent Auditor's Report

To the Office of Inspector General
of the Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the accompanying Schedules of Non-Entity Assets as of September 30, 2002 and 2001, and Non-Entity Costs and Custodial Revenue for the years ended September 30, 2002 and 2001 (the Schedules) of the U. S. Department of the Treasury's Financial Management Service (FMS). These Schedules are the responsibility of FMS's management. Our responsibility is to express an opinion on these Schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Schedules referred to above present fairly, in all material respects, the Non-Entity Assets as of September 30, 2002 and 2001, and Non-Entity Costs and Custodial Revenue for the years ended September 30, 2002 and 2001 of FMS in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 5, 2002, on our consideration of FMS's internal control over financial reporting relating to the amounts reflected in the Schedule and on our tests of FMS's compliance with certain provisions of laws and regulations relating to the amounts reflected in the Schedules. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Calverton, Maryland
November 5, 2002



Independent Auditor's Report On Internal Control

To the Office of Inspector General
of the Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Assets as of September 30, 2002, and Non-Entity Costs and Custodial Revenue for the year ended September 30, 2002 (the Schedule) of the U. S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated November 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered FMS's internal control over financial reporting for the amounts reflected in the Schedule by obtaining an understanding of relevant internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting for the amounts reflected in the Schedule would not necessarily disclose all matters in the internal control over financial reporting for the amounts reflected in the Schedule that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect FMS's ability to record, process, summarize, and report financial data consistent with the assertions by management in the Schedule. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Schedule being audited may occur and not be detected within a timely period by employees in the normal course of

performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted no matters involving the internal control and its operation that we consider to be a material weakness.

However, we noted other matters involving the internal control over financial reporting for the amounts reflected in the Schedule that we have reported to management of FMS in a separate letter dated November 5, 2002.

This report is intended solely for the information and use of the management of FMS, the Department of the Treasury Office of Inspector General, OMB and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
November 5, 2002



Independent Auditor's Report On Compliance With Laws and Regulations

To the Office of Inspector General
of the Department of the Treasury and the
Commissioner of the Financial Management Service

We have audited the Schedule of Non-Entity Assets as of September 30, 2002, and Non-Entity Costs and Custodial Revenue for the year ended September 30, 2002 (the Schedule) of the U. S. Department of the Treasury's Financial Management Service (FMS), and have issued our report thereon dated November 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of FMS is responsible for complying with laws and regulations applicable to the amounts reflected in the Schedule. As part of obtaining reasonable assurance about whether the amounts reflected in the Schedule are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the amounts reflected in the Schedule and certain other laws and regulations specified in OMB Bulletin No. 01-02. We limited our tests of compliance to those provisions, and we did not test compliance with all laws and regulations applicable to FMS.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations described in the preceding paragraph that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of FMS, the Department of the Treasury Office of Inspector General, the OMB and Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
November 5, 2002

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
SCHEDULES OF NON-ENTITY ASSETS
AS OF SEPTEMBER 30, 2002 AND 2001 AND
NON-ENTITY COSTS AND CUSTODIAL REVENUE
FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001
(Dollars in Thousands)**

	<u>2002</u>	<u>2001</u>
NON-ENTITY ASSETS		
Intra-governmental:		
Fund balance with Treasury (Note 2)	\$ 1,133,979	\$ 785,026
Accounts receivable, net (Note 3)	666,776	666,225
Other	12,726	12,600
Total intra-governmental	<u>1,813,481</u>	<u>1,463,851</u>
With the public:		
Receivable on deposit earnings, Federal Reserve System	646,435	405,230
Accounts receivable, net (Note 3)	9,934	3,909
Total with the public	<u>656,369</u>	<u>409,139</u>
TOTAL NON-ENTITY ASSETS	<u><u>\$ 2,469,850</u></u>	<u><u>\$ 1,872,990</u></u>
NON-ENTITY COSTS (Notes 4 and 6)		
Credit Reform - interest on uninvested funds	\$ 4,280,585	\$ 4,708,083
Judgments	1,849,996	1,414,798
Money erroneously received and covered	786,148	147,220
Resolution Funding Corporation	674,563	463,812
Public Broadcasting Fund, Corporation for Public Broadcasting	375,000	360,000
Legal Services	333,445	321,207
Anti-terrorism judgments	145,644	231,645
District of Columbia	284,698	39,427
Restitution of Foregone Interest	182,605	-
Other	41,233	46,701
TOTAL NON-ENTITY COSTS	<u><u>\$ 8,953,917</u></u>	<u><u>\$ 7,732,893</u></u>
CUSTODIAL REVENUE (Note 5)		
Deposit of earnings, Federal Reserve System	\$ 23,682,939	\$ 26,123,722
Interest received from tax and loan depositaries	340,668	950,584
Recoveries from Federal Agencies for settlement of claims from contract dispute	196,124	310,410
General fund proprietary receipts, not otherwise classified	77,704	136,467
Fines, penalties, and forfeitures	3,848	62,893
Other	55,393	30,838
Total cash collections	24,356,676	27,614,914
Accrual adjustment	252,305	(399,529)
TOTAL CUSTODIAL REVENUE	<u><u>\$ 24,608,981</u></u>	<u><u>\$ 27,215,385</u></u>

The accompanying notes are an integral part of these Schedules.

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
SEPTEMBER 30, 2002 AND 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

FMS is a bureau of the U. S. Department of the Treasury (Treasury). FMS's mission is to improve the quality of government financial management. FMS's commitment and responsibility is to help its customers achieve success. FMS does this by linking program and financial management objectives and by providing financial services, information, advice, and assistance to its customers. FMS serves taxpayers, Treasury, Federal program agencies, and government policy makers.

Non-Entity accounts are those accounts that FMS holds but are not available to FMS in its operations. For example, FMS accounts for certain cash that the Federal Government collects and holds on behalf of the U. S. Government or other entities. However, the Schedules of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedules) do not include Non-Entity Operating Cash of the Federal Government (commonly known as Government-wide Cash). These Schedules include the activity of Non-Entity account symbols managed by FMS.

Some Non-Entity accounts receive appropriations for specific Federal programs. Some of the appropriations are permanent, indefinite appropriations. They are not subject to budgetary ceilings established by Congress. Both types of appropriations are used for payments to Federal program agencies and others.

Some Non-Entity accounts receive cash collections. These types of accounts are miscellaneous receipt accounts. Examples of collections include interest payments, contributions, and collections of fines and penalties.

Basis of Presentation

The Schedules have been prepared from the accounting records maintained by FMS and are meant to report Non-Entity Assets, Non-Entity Costs and Custodial Revenue of the Financial Management Service (FMS) in accordance with generally accepted accounting principles. Such principles require the use of the accrual method of accounting to record transactions. Under the accrual method, revenues are recognized when earned and costs are recognized when a cost is incurred, without regard to receipt or payment of cash. These Schedules were prepared following accrual accounting.

The standards used in the preparation of these Schedules are issued by the Federal Accounting Standards Advisory Board (FASAB), as the body authorized to establish generally accepted accounting principles for Federal government entities.

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
SEPTEMBER 30, 2002 AND 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Balances reflected on these Schedules may differ from those on financial reports prepared by FMS pursuant to certain OMB directives that are primarily used to monitor and control FMS's use of budgetary resources.

Use of Estimates in Preparing Schedules

The preparation of these Schedules, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. These estimates affect the reported amounts of assets at the date of the Schedules and the amounts of revenues and costs during the reporting period for the Schedules. Actual results may differ from these estimates.

Fund Balance with U. S. Treasury

The Fund Balance with Treasury (FBWT) is an asset account that reflects the available budget spending authority of federal agencies. Collections and disbursements by agencies will, correspondingly, increase or decrease the balance in the account.

Accounts Receivable

Accounts receivable is comprised of Intra-governmental accounts (i.e. amounts due from other Federal agencies) and accounts With the Public. Accounts With the Public include amounts due from the Federal Reserve System. FMS records an allowance for uncollectible accounts based on projections of future collections (based on prior year collection trends) and the aging of outstanding accounts receivable at September 30.

Receivable on Deposit of Earnings, Federal Reserve System

Reserve Banks are required by the Board of Governors of the Federal Reserve System to transfer to the U. S. Treasury excess earnings, after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid in. In the event of losses, or a substantial increase in capital, a Reserve Bank will suspend its payments to the U. S. Treasury until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U. S. Treasury may vary significantly. The Receivable on Deposit of Earnings, Federal Reserve System, represents the earnings due Treasury as of September 30, 2002 and 2001, but not collected by the U. S. Treasury until after the end of the fiscal year.

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
SEPTEMBER 30, 2002 AND 2001**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Custodial Revenue

Custodial revenue is initially recorded on a cash basis when amounts are deposited into receipt accounts. However, an adjustment is reflected on the Schedules at September 30 to accrue for collections in a fiscal year relating to prior year's Non-Entity Accounts Receivable, and to account for other changes in the Non-Entity Accounts Receivable not resulting in a collection of cash in the current period (i.e. new reimbursements and change in the allowance for uncollectible accounts).

Intra-governmental Financial Activities

The financial activities of FMS are affected by, and are dependent upon, those of Treasury and the Federal Government as a whole. Thus, the accompanying Schedules do not reflect the results of all-financial decisions and activities applicable to FMS as if it were a stand-alone entity.

NOTE 2 - FUND BALANCE WITH TREASURY

The Fund Balance with Treasury is funded through various sources depending on the specific legislative authority and purpose, and may be used only for specific purposes. Such amounts may be in escrow or other special accounts. These accounts are primarily funded through appropriations, collections, tax receipts, gifts to the Government, and settlements from foreign countries.

Obligated balances are funds against which budgetary obligations have been incurred, but disbursements have not been made. The Unobligated Available balance is the amount of funds available to FMS against which no claims have been recorded. The Unobligated Unavailable balance is the amount of unobligated funds remaining from appropriations that have expired. Fund balance with Treasury as of September 30, 2002 and 2001 consisted of the following (amounts in thousands):

Account Type	2002			
	Obligated	Unobligated Available	Unobligated Unavailable	Total
Appropriated Funds	\$ 715,382	\$ 177,793	\$ 4,000	\$ 897,175
Revolving Funds	372	10,622	-	10,994
Trust Funds	-	59	-	59
Other Fund Types	-	-	225,751	225,751
Total	\$ 715,754	\$ 188,474	\$ 229,751	\$ 1,133,979

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
SEPTEMBER 30, 2002 AND 2001**

NOTE 2 - FUND BALANCE WITH TREASURY (CONTINUED)

<u>Account Type</u>	<u>2001</u>			<u>Total</u>
	<u>Obligated</u>	<u>Unobligated Available</u>	<u>Unobligated Unavailable</u>	
Appropriated Funds	\$ 238,028	\$ 278,196	\$ 3,003	\$ 519,227
Revolving Funds	807	11,324	-	12,131
Trust Funds	10	79	-	89
Other Fund Types	<u>-</u>	<u>-</u>	<u>253,579</u>	<u>253,579</u>
Total	<u>\$ 238,845</u>	<u>\$ 289,599</u>	<u>\$ 256,582</u>	<u>\$ 785,026</u>

The fund balance unobligated available supports the budgetary resources available except for \$310 thousand in 2002 and 2001, which is invested. The fund balance, unobligated unavailable for appropriated funds, supports the budgetary resources not available. The fund balance, unobligated unavailable for other fund types, includes only deposit funds and suspense accounts which do not have a budgetary impact.

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Intra-governmental Accounts Receivable, Net

Accounts receivable, intra-governmental, includes amounts Federal agencies owe to FMS for the payment of water and sewage service to the District of Columbia, and amounts Federal agencies are required to reimburse the Treasury's Judgment Fund for settlements paid on their behalf for contract disputes (pursuant to the Contracts Dispute Act) and fire fighting services. While the Contracts Dispute Act (CDA) requires Federal Agencies reimburse the Judgment Fund for payments, CDA does not authorize FMS collection action against those Agencies. Accordingly, FMS has historically had difficulty in collecting amounts owed to them under the CDA. An allowance for uncollectible accounts has been established to recognize losses on receivables that may not be collected under this Program.

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
SEPTEMBER 30, 2002 AND 2001**

NOTE 3 - ACCOUNTS RECEIVABLE, NET (CONTINUED)

Accounts receivable as of September 30, 2002 and 2001 consist of the following (amounts in thousands):

	<u>2002</u>	<u>2001</u>
Claims for Contract Disputes and Fire Fighting Services	\$ 1,461,776	\$ 1,412,980
Billings for Water and Sewage Services and Other	<u>-</u>	<u>3,245</u>
Gross Accounts Receivable	1,461,776	1,416,225
Less: Allowance for Uncollectible Accounts	<u>(795,000)</u>	<u>(750,000)</u>
Accounts Receivable, Net	<u>\$ 666,776</u>	<u>\$ 666,225</u>

Accounts Receivable With the Public, Net

Accounts receivable With the Public, exclusive of amounts due from the Federal Reserve System, as of September 30, 2002 and 2001 consist of the following (amounts in thousands):

	<u>2002</u>	<u>2001</u>
U. S. Treasury Check Forgery Insurance Fund Receivables	\$ 4,513	\$ 5,277
Interest Received from Tax and Loan Depositories	7,351	-
Interest Payments from States	<u>28</u>	<u>76</u>
Gross Accounts Receivable	11,892	5,353
Less: Allowance for Uncollectible Accounts	<u>(1,958)</u>	<u>(1,444)</u>
Accounts Receivable, Net	<u>\$ 9,934</u>	<u>\$ 3,909</u>

The U. S. Treasury Check Forgery Insurance Fund was established to expedite payments on claims and provide a dependable source of funds to meet the Federal Government's responsibility for the payment of settlement checks issued to replace checks paid over forged endorsements. The receivable represents the amount due from banks that cashed the forged checks.

A receivable for Interest Received from Tax and Loan Depositories was recorded for the first time in fiscal 2002. Such amount represents interest accrued and owed to the Treasury, from the depositories participating in the Investment Programs, for the interest earned on Treasury Tax and Loan funds. The Treasury Tax and Loan (TT&L) program invests funds collected by the Federal Government in short-term loans to commercial financial institutions. These funds can be withdrawn on demand to meet the Federal Government's immediate cash requirements. The amount for fiscal 2001 was not material and, accordingly, was not reflected in the Schedule.

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
SEPTEMBER 30, 2002 AND 2001**

NOTE 4 - NON-ENTITY COSTS

Non-Entity Costs represent payments made on behalf of other Federal agencies through various Treasury Managed Accounts (TMA) described below. In addition, Non-Entity Costs also include accruals for which FMS has made a commitment to make a payment for claims existing as of September 30, 2002 and 2001.

Credit Reform: Interest on Uninvested Funds - Direct loan and loan guarantee financing accounts receive various payments, repayments and fees, and make payments on defaults. When cash receipts exceed outlays or when an Agency does not disburse all of its borrowings, these balances are held in the Treasury and earn interest. The interest earned on these balances is disbursed by FMS to the Agency.

Judgments - FMS processes payments from the Judgment Fund for certain judicially and administratively ordered monetary awards against the United States, as well as amounts owed under compromise agreements negotiated by the United States Department of Justice in settlement of claims arising under actual or imminent litigation.

Moneys Erroneously Received and Covered - This account is used for expenditures made for collections or other receipts erroneously deposited into Treasury. Collections represent receipts that were not properly chargeable to any other appropriation. Included in the cost for Moneys Erroneously Received and Covered is an accrued payable for Harbor Maintenance Tax Export Refunds - Administrative Claims. Payments are expected to be made by the U. S. Customs Service to cover these administrative claims through this account.

Resolution Funding Corporation - The Resolution Funding Corporation (REFCORP) account is maintained pursuant to the Federal Home Loan Bank Act. FMS provides payments to REFCORP to cover the interest expenses of REFCORP.

Public Broadcasting Fund, Corporation for Public Broadcasting - This account is used to make annual payments to the Corporation for Public Broadcasting pursuant to the enacted Public Law. The payment is used to assist and facilitate the full development of public telecommunications in which programs of high quality, diversity, creativity, excellence, and innovations will be made available to public telecommunications.

Legal Services - This account is used to pay the Legal Services Corporation through letter of credit drawdowns. The Legal Services Corporation distributes appropriated funds to local nonprofit organizations that provide free civil legal assistance, according to locally determined priorities, to people living in poverty. Congress chartered the Corporation as a private, non-profit entity outside of the Federal Government.

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
SEPTEMBER 30, 2002 AND 2001**

NOTE 4 - NON-ENTITY COSTS (CONTINUED)

Anti-Terrorism Judgments - This account was established by the authority of Section 2002 of the Victims of Trafficking and Violence Protection Act, Public Law 106-386, for the purpose of making payments to persons who hold certain categories of judgments against Iran in suits brought under 28 U.S.C. 1605(a)(7). For purposes of funding payments in connection with judgments against Iran, Section 2002 provides that the Department of the Treasury shall make payments from amounts paid and liquidated from (a) rental proceeds accrued on the date of the enactment of the Act from Iranian diplomatic and consular property located in the United States and (b) funds not otherwise made available in an amount not to exceed the total of the amount in the Iran Foreign Military Sales program account within the Foreign Military Sales Fund on the date of the enactment of the Act. FMS has received an appropriation to pay claims related to these judgments in the amount of \$400,179 thousand, of which \$377,289 thousand and \$231,645 thousand has been disbursed or accrued through September 30, 2002 and 2001, respectively.

District of Columbia - Payments to the District of Columbia cover certain operations of the District of Columbia. It includes payments for a program of management reform, for the administration and operation of correctional facilities, and for construction and repair of the District's infrastructure.

Restitution of Foregone Interest - This account is used to restore "lost" interest to investing program agencies such as the Civil Service Retirement and Disability Fund and the Thrift Savings Fund after a Debt Issuance Suspension Period (debt crisis) has ended. There were no amounts for fiscal 2001.

Other - Other non-entity costs include the following payments: Presidential Election Campaign Fund, Payments to the States, Payments to Agencies for Interest on Uninvested Funds, Payment to the Institute of American Indian and Alaskan Native Culture and Arts Development, Payments from the U. S. Treasury Check Forgery Insurance Fund, Payments to Individuals under Private and Public Relief Laws, and Payments from Biomass Energy Development.

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
SEPTEMBER 30, 2002 AND 2001**

NOTE 5 - COLLECTIONS OF CUSTODIAL REVENUE

FMS collects Custodial Revenue that is not related to its mission and distributes the full amount collected to the Treasury General Fund. For the years ended September 30, 2002 and 2001 cash collections were as follows (amounts in thousands):

	Year Ended September 30, 2002		
	October to December, 2001	January to September, 2002	Total
Deposit of Earnings, Federal Reserve System (Note 1)	\$ 5,538,933	\$18,144,006	\$23,682,939
Interest Received from Tax and Loan Depositories (Note 3)	123,515	217,153	340,668
Recoveries from Federal Agencies for Settlement of Claims from Contract Dispute	28,002	168,122	196,124
General Fund Proprietary Receipts	8,878	68,826	77,704
Fines, Penalties and Forfeitures	3,754	94	3,848
Other	12,225	43,168	55,393
Total	<u>\$ 5,715,307</u>	<u>\$18,641,369</u>	<u>\$24,356,676</u>

	Year Ended September 30, 2001		
	October to December, 2000	January to September, 2001	Total
Deposit of Earnings, Federal Reserve System (Note 1)	\$ 4,511,431	\$21,612,291	\$26,123,722
Interest Received from Tax and Loan Depositories (Note 3)	291,233	659,351	950,584
Recoveries from Federal Agencies for Settlement of Claims from Contract Dispute	100,053	210,357	310,410
General Fund Proprietary Receipts	5,931	130,536	136,467
Fines, Penalties and Forfeitures	-	62,893	62,893
Other	247	30,591	30,838
Total	<u>\$ 4,908,895</u>	<u>\$22,706,019</u>	<u>\$27,614,914</u>

**DEPARTMENT OF THE TREASURY,
FINANCIAL MANAGEMENT SERVICE
NOTES TO THE SCHEDULES OF NON-ENTITY ASSETS,
NON-ENTITY COSTS AND CUSTODIAL REVENUE
SEPTEMBER 30, 2002 AND 2001**

NOTE 6 - CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible payment by FMS. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or unasserted litigation, a liability/cost is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources can be reasonably estimated.

There are numerous legal actions pending against the United States in Federal courts in which claims have been asserted that may be based on action taken by FMS. Management intends to vigorously contest all such claims. Management believes, based on information provided by legal counsel, that losses, if any, for the majority of these cases would not have a material impact on the Schedules. There are other cases that could result in significant payouts; however, legal counsel is unable to determine the probability of an unfavorable outcome, or determine an estimate or range of potential loss, for these matters, if any. No loss accrual has been made for these cases outstanding at September 30, 2002 or 2001. Below is an example of one such case:

Cobell, et al. v. Norton, et al.

In this case, the plaintiffs allege that the Departments of the Interior and Treasury have breached trust obligations with respect to the management of the plaintiffs' Individual Indian Monies (IIM). The plaintiffs have not made claims for specific dollar amounts. However, their claims are complex, and if an unfavorable decision is rendered, a material loss could be incurred.

In addition, FMS manages several accounts that may be used for the payment of claims against other Federal agencies. Such payments are reflected in the following non-entity cost accounts reflected in the Schedules: Judgments, Moneys Erroneously Received and Covered, and Anti-Terrorism Judgments. At September 30, 2002 and 2001, such claims are in various stages of settlement.

Pursuant to the provisions of the Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, "Accounting for Treasury Judgment Fund Transactions," claim amounts will be reflected in the Schedule upon completion of certain judicial procedures and the Federal agency's request for payment of these claims from the Judgment Fund.

At September 30, 2002 and 2001, \$623,820 thousand and \$145,446 thousand, respectively, has been accrued and reflected in the Schedules in the appropriate non-entity cost classification for the estimated future expenditure expected to satisfy these claims. A corresponding amount is also reflected in Fund Balance with Treasury in the Schedules.

This information is an integral part of the accompanying Schedules.